

DISCLAIMER

This electronic version of an SCC order is for informational purposes only and is not an official document of the Commission. An official copy may be obtained from the [Clerk of the Commission, Document Control Center](#).

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JULY 21, 1998

APPLICATION OF

SOUTHWESTERN VIRGINIA GAS COMPANY

CASE NO. PUE970765

For an expedited increase in rates

FINAL ORDER

On September 24, 1997, Southwestern Virginia Gas Company (“Southwestern” or the “Company”) filed an application for an expedited increase in rates for gas service, together with supporting testimony and schedules. The Company’s proposed rates are designed to produce additional gross annual operating revenues of \$251,427, representing an increase of 2.95% in unadjusted jurisdictional revenues. The Company’s proposed rate increase is based on a test period ending June 30, 1997, and on a return of equity of 11.3%. By order dated October 23, 1997, the Commission allowed the proposed rates to go into effect on an interim basis, subject to refund with interest, for bills rendered on and after November 30, 1997. The Commission also established a procedural schedule and assigned the case to a Hearing Examiner.

A public hearing in this proceeding was held on April 8, 1998. Staff filed direct testimony on March 5, 1998, in which it recommended that the Company’s requested increase be reduced to \$96,233.¹ Part of the differential in Staff’s and the Company’s proposed revenue requirement was based on Staff’s recommendation that the authorized range for return on equity be lowered from 10.80-11.80% to 10.10-11.10%.² The Company agreed to Staff’s revised

¹ The Staff revised its revenue requirement to \$99,696, the level of the Company’s revised interim rates.

² Additionally, the Staff made certain recommendations concerning the apportionment of lower than requested revenue requirements and customer charges.

recommendation and, on March 16, 1998, filed a request to lower its rates for bills rendered on or after March 31, 1998, to reflect Staff's revised recommended annual increase. The Hearing Examiner granted this request by ruling dated March 17, 1998. Thus, at the time of the hearing, Staff and the Company had agreed on all issues in this case, with the exception of certain aspects of the cost of service study that Staff recommends the Company should be ordered to perform in the Company's next rate case.

On May 1, 1998, the Hearing Examiner issued his Report. He found that the agreement between Staff and the Company offers a just and reasonable resolution to all issues concerning the Company's revenue requirement, cost of capital, revenue apportionment and rate design and recommended that the agreement be adopted. More specifically, he found that:

- (1) The use of a test year ending June 30, 1997, is proper in this proceeding;
- (2) The Company's test year operating revenues, after all adjustments, were \$8,363,135;
- (3) The Company's test year operating revenue deductions, after all adjustments, were \$7,929,990;
- (4) The Company's test year net operating income and adjusted net operating income, after all adjustments, were \$433,145 and \$419,632, respectively;
- (5) The Company's current rates produced a return on adjusted rate base of 8.10% and a return on equity of 8.38%;
- (6) The Company's current cost of equity is within a range of 10.10%-11.10%, and the Company's rates should be established based on the 10.60% midpoint of the equity range;
- (7) The Company's overall cost of capital, using the midpoint of the equity range found reasonable herein and using a capital structure as of June 30, 1997, is 9.335%;
- (8) The Company's adjusted test year rate base is \$5,181,294;
- (9) The Company's application requesting an annual increase in revenues of \$251,427 is unjust and unreasonable because it will generate a return on rate base greater than 9.335%;

(10) The Company requires \$99,696 in additional gross annual revenues to earn a 9.335% return on rate base;

(11) The Company's proposed revenue allocation methodology, as supplemented by the Staff for lower than requested revenue requirements and for customer charges, is just and reasonable;

(12) The Company's revised interim rates, which became effective for bills rendered on and after March 31, 1998, should be approved as permanent rates;

(13) The Company should be required to refund, with interest, all revenues collected under its initial interim rates in excess of the amount found just and reasonable herein;

(14) In its next general rate case, Southwestern should modify its Rate Schedule B to provide separate service schedules for small general service (or commercial) customers and for firm industrial customers;

(15) In its next general rate case, Southwestern should eliminate non-jurisdictional customers from its class cost of service study; and

(16) In its next general rate case, Southwestern should provide evidence regarding the continued need for Rate Schedule D and the reasonableness of rates charged for air conditioning service.

On May 8, 1998, Southwestern filed a letter stating that it has no formal exceptions to the Hearing Examiner's Report, but expressed its view that the Hearing Examiner's recommendation concerning the Company's cost of service study in its next general rate case would "require a fair amount of effort for what the Company believes will be virtually no value." The Company further stated that even though it regards the recommended studies as inefficient, it would undertake the studies if so directed by the Commission.

NOW THE COMMISSION, upon consideration of the record and the Hearing Examiner's May 1, 1998 Report, the comments of the Company, as well as the applicable rules and statutes, is of the opinion that the findings and recommendations of the Hearing Examiner are reasonable and should be adopted.

As the Hearing Examiner discussed, the only two issues remaining in controversy at the time of the hearing concern certain changes that Staff recommends that the Company be required to incorporate in the cost of service study in its next general rate case. More specifically, the Hearing Examiner agreed with Staff that the Company should: (i) propose separate service schedules for commercial and industrial customers based upon customers' usage characteristics and the type of facilities required to serve them; and (ii) remove non-jurisdictional customers and separate air conditioning customers in future cost of service studies.

We find that the Hearing Examiner's analysis underlying his recommendation that non-jurisdictional customers be separated out in future cost of service studies is reasonable and will adopt that recommendation. The Hearing Examiner noted that the Company now tracks usage data for customers served under Rate Schedule B (under which commercial and industrial customers are served) and that 41 of the 873 customers served under Rate Schedule B, or almost 5 percent, are non-jurisdictional. He further noted that one of these non-jurisdictional customers is among the 19 customers with monthly usage over 5,000 Ccf. We agree with the Hearing Examiner that these facts indicate that the failure to eliminate non-jurisdictional customers could have a material impact on the rates to be derived by separating commercial and industrial customers served under Rate Schedule B into two new and different rate schedules. We also agree with the Hearing Examiner that Staff's breakdown of usage by customers served under Rate Schedule B shows that the preparation of a jurisdictional cost of service study should not be overly burdensome to the Company and that the identification of individual non-jurisdictional customers should facilitate the direct assignment and development of other allocation factors.

The second cost of service study issue concerns the Company's classification of air conditioning service; i.e., currently, the Company provides service to air conditioning customers under a separate rate schedule (Rate Schedule D), but does not show these customers as a separate class in its cost of service study. The Hearing Examiner observes that under the Company's current rate structure, there is no way to determine the extent to which these customers cover their costs of service and whether these customers are moving toward parity or

away from it. Further, he points out that the Company's justification for omitting a separate classification for air conditioning service in its cost of service study (i.e., for the reason that the number of these customers is insignificant when compared to total company customers and sales) suggests that there may not be sufficient justification for having a separate rate schedule for air conditioning service. The Hearing Examiner reasons that, either way, the Company must shoulder the responsibility of providing evidence to support the reasonableness of its customer classifications and rate structures. Therefore, the Hearing Examiner recommends that, rather than require the Company to provide a cost of service study in its next rate case showing air conditioning service as a separate and distinct classification, the Company should be required to provide evidence and support for both the existence and the rates under Rate Schedule D. We find that the Hearing Examiner's analysis is well reasoned, and will adopt his recommendation as a fair and reasonable resolution of this matter.

In conclusion, the Commission finds that the findings and recommendations of the Hearing Examiner, as stated in his May 1, 1998 Report, are reasonable and should be adopted.

Accordingly, IT IS ORDERED:

(1) That Southwestern's request for an expedited rate increase is granted to the extent provided herein.

(2) That, on or before August 7, 1998, the Company shall file revised schedules of rates and charges and revised terms and conditions of service consistent with the findings herein, effective for bills rendered on and after November 30, 1997.

(3) That, on or before November 15, 1998, the Company shall complete the refund, with interest as directed below, of all revenues collected from the application of the interim rates which were effective for bills rendered beginning November 30, 1997, to the extent that such revenues exceeded, on an annual basis, the revenues which would have been collected by application, in lieu thereof, of the permanent rates to be filed in compliance with this order.

(4) That interest upon such refunds shall be computed from the date payment of each monthly bill was due during the interim period until the date refunds are made, at an average prime rate for each calendar quarter. The applicable average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin, or in the Federal Reserve's Selected Interest Rates, for the three months of the preceding calendar quarter.

(5) That the interest required to be paid shall be compounded quarterly.

(6) That the refunds ordered in paragraph (3) above may be accomplished by credit to the appropriate customer's account for current customers (each refund category being shown separately on each customer's bill). Refunds to former customers shall be made by a check to the last known address of such customers when the refund amount is \$1.00 or more. Southwestern may offset the credit or refund to the extent no dispute exists regarding the outstanding balances of its past or current customers. To the extent that outstanding balances of such customers are disputed, no offset shall be permitted for the disputed portion. Southwestern may retain refunds owed to former customers when such refund is less than \$1.00; however, the Company shall prepare and maintain a list detailing each of the former accounts for which refunds are retained and in the event such former customers request refunds, same shall be made promptly. All unclaimed refunds shall be handled in accordance with Virginia Code § 55-210.6:2.

(7) That on or before December 15, 1998, Southwestern shall file with the Commission's Division of Energy Regulation a document showing that all refunds have been lawfully made pursuant to this Order and itemizing the costs of the refund and account charged.

(8) That Southwestern shall bear all costs of the refund directed in this Order.

(9) That the Company shall forthwith maintain its records as discussed herein.

(10) That the Company shall provide documentation of adherence to booking changes adopted in this proceeding within 90 days of this Order to be filed with the Director of Public Utility Accounting.

(11) That the Company, in its next general rate case, shall modify its Rate Schedule B to provide separate service schedules for small general service or commercial customers and for firm industrial customers.

(12) That the Company, in its next general rate case, shall provide evidence concerning the continued need for Rate Schedule D and the reasonableness of rates charged for air conditioning service.

(13) That there being nothing further to come before the Commission in this matter, this case shall be removed from the Commission's docket and the papers placed in the file for ended causes.